

REPORT OF EXAMINATION  
OF THE  
PREMIER ACCESS INSURANCE COMPANY

AS OF  
DECEMBER 31, 2009

Participating State  
and Zone:

California

Filed February 1, 2011

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San Francisco, California  
October 8, 2010

Honorable Alfred W. Gross  
Chairman of the NAIC Financial  
Condition Subcommittee  
Commissioner of Insurance  
Virginia Bureau of Insurance  
Richmond, Virginia

Honorable Christina Urias  
Secretary, Zone IV-Western  
Director of Insurance  
Arizona Department of Insurance  
Phoenix, Arizona

Honorable Steve Poizner  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Chairman, Secretary and Commissioner:

In accordance with your instructions, an examination was made of the

**PREMIER ACCESS INSURANCE COMPANY**

(hereinafter referred to as the Company) at its home office located at 8890 Cal Center Drive, Sacramento, California 95826.

**SCOPE OF EXAMINATION**

The previous examination of the Company was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2009. The examination was conducted in accordance with the National Association of Insurance Commissioners' plan of examination. The present examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

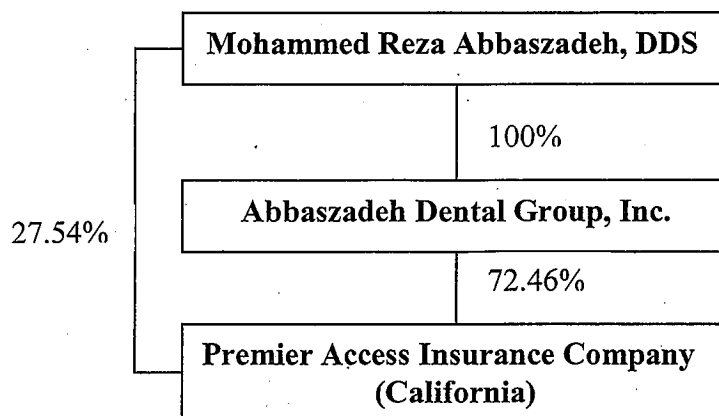
### COMPANY HISTORY

On January 1, 2005, the Company's parent, Access Dental Plan (Access), underwent a corporate reorganization. As a result, Access split into two affiliated companies, and the Company became a third affiliated company under a newly formed holding company, Abbaszadeh Dental Group, Inc. (ADG). As part of this reorganization ADG obtained ownership of the 25,000 shares of the Company's common stock previously owned by Access. Dr. Mohammed Reza Abbaszadeh retained his direct ownership of 9,500 shares of the total 34,500 shares of the issued and outstanding common shares of the Company. Dr. Abbaszadeh remained the ultimate controlling person through his sole ownership of ADG. The California Department of Insurance granted approval of the reorganization on May 27, 2004.

In 2009, the Company amended its Articles of Incorporation to include disability and life and again in 2010 to increase par value from \$50 to \$78. The amendments were endorsed and filed by the California Secretary of State on March 23, 2009 and August 30, 2010, respectively.

### MANAGEMENT AND CONTROL

As of December 31, 2009, the Company was a member of an insurance holding company system in which Abbaszadeh Dental Group, Inc. (ADG), the Company's parent, owns 72.46% of the Company. Dr. Mohammed Reza Abbaszadeh, the sole owner of ADG, owns the remaining 27.54%. The following chart depicts the interrelationship between the Company, the immediate parent, and its ultimate controlling person within the holding company system as of December 31, 2009:



Management of the Company is under the control of a seven-member board of directors, elected annually. The directors and principal officers as of December 31, 2009 were as follow:

#### Directors

##### Name and Residence

##### Principal Business Affiliation

Mohammed Reza Abbaszadeh, DDS  
Sacramento, California

President and Chief Executive Officer  
Access Dental Plan

Jeffrey L. Elder  
Sacramento, California

Senior Vice President and Chief Financial  
Officer  
Edonsonics Corporation

Richard C. Fulton\*  
El Dorado Hills, California

Chief Marketing Officer  
Premier Access Insurance Company

Arulkannan Kothandaraman\*  
Tamil Nadu, India

Chief Executive Officer and Chief  
Operating Officer  
Data Telesis, Private Limited

Carson L. Lovett  
Sacramento, California

Retired

Barton McDougal  
Sacramento, California

President  
McDougal & Co., Inc.

Edward J. Munno  
Dallas, Texas

President and Chief Executive Officer  
Abovehealth

*\*New directors elected to the Board in 2009.*

### Principal Officers

<u>Name</u>	<u>Position</u>
Mohammed Reza Abbaszadeh, DDS	President and Secretary
Hideo Kakiuchi	Chief Financial Officer
Richard C. Fulton	Chief Marketing Officer

### Affiliated Management Agreements

Administrative Services with Right of Setoff Agreement - Access Dental Plan: There is an Administrative Services Agreement between the Company and Access Dental Plan (Access), effective January 1, 2002. Under the terms of this agreement, each party agrees to perform certain services for the other party as is determined to be reasonably necessary in the conduct of operations. Services include, but are not limited to, the following: Access employees shall provide certain accounting services for the Company as may be required; the Company shall provide actuarial services to Access as needed; Access employees shall perform customer and provider services duties for the Company under the direction and supervision of the Company as necessary, and vice versa; sharing of employees to perform information technology services; and marketing. This agreement also establishes a legally enforceable right between the parties so that a debtor, having a valid right of setoff, may offset the related asset and liability and report the net amount. Under the terms of the agreement, the Company incurred net expenses for the years 2005, 2006, 2007, 2008, and 2009 totaling \$362,000, \$360,000, \$324,006, \$269,550, and \$502,989, respectively. This agreement was submitted to the California Department of Insurance (CDI) in accordance with California Insurance Code (CIC) 1215.5(b)(4) and was approved on September 29, 2004.

Administrative Services Agreement - Access Dental Group, a Professional Dental Corporation (APDC): There is an Administrative Services Agreement between the Company and APDC, effective July 1, 2005. Under the terms of this agreement, each party desires to cooperate in the

performance of certain administrative services and desires further to share in the use during their day-to-day operations of certain property, equipment, and facilities. All charges for services and use of facilities incurred under the Agreement will reflect actual costs. Under the terms of the agreement, APDC incurred net expenses for the years 2005, 2006, 2007, 2008, and 2009 totaling \$152,000, \$179,000, \$194,471, \$152,146, and \$183,231, respectively. This agreement was submitted to the CDI in accordance with CIC 1215.5(b)(4) and was approved on October 4, 2010.

Service Agreement - Data Telesis, Private Limited: The Company is a party to a Service Agreement with Data Telesis, Private Limited (Data Telesis), effective July 2003. Under the terms of the Service Agreement, Data Telesis agrees to provide administrative support and services to the Company. Services include, but are not limited to, the following: claim processing, data entry, comprehensive accounting functions including accounts payable, accounts receivable, consolidation of information, commission calculations and financial analysis, collection services, telephone member services, enrollment services, dental billing services and payroll and human resources tasks. Under the terms of the agreement, the Company incurred net expenses for the years 2005, 2006, 2007, 2008, and 2009 totaling \$746,857, \$1,072,167, \$1,067,310, \$1,501,800, and \$1,602,810, respectively. This agreement was submitted to the CDI in accordance with CIC 1215.5(b)(4) and was deemed approved on January 13, 2005.

Administrative Services Agreement - WebHR.com Administrators: The Company is a party to an Administrative Services with Right of Setoff Agreement (Setoff) with WebHR.com Administrators (WebHR), an affiliate, effective on approval date as granted by the CDI. Each party agrees to perform services as described in the agreement for the other party as is determined to be reasonably necessary in the conduct of operations. Services include, but are not limited to, the following: the Company agrees to make available its facilities to WebHR; the Company shall provide accounting services for WebHR; the Company employees shall perform, or coordinate, information technology services for WebHR under the direction and supervision of WebHR; joint marketing; and the Company shall provide other functional support services to WebHR as reasonable and necessary. Other functional support services include, but are not

limited to, mailroom services, reception, payroll, human resources, and translation. Also, as a third party administrator, WebHR shall perform enrollment, billing and COBRA administration services for the Company. Under the terms of the agreement, the Company incurred net expenses for the years 2005, 2006, and 2007 totaling \$277,000, \$388,305, and \$155,512, respectively. The Company did not incur any expenses for the years ending 2008 and 2009 under the Agreement. This agreement was submitted to the CDI in accordance with CIC 1215.5(b)(4) and was approved on November 9, 2006.

Office Lease - Executive Offices of California Center: A lease agreement between the Company (tenant) and Executive Offices of California Center, a California Limited Partnership (EOCC - landlord) was entered into on April 10, 2004 and effective on May 1, 2005. The general partner of EOCC is California Center Office Development, LLC which is wholly owned by Dr. Mohammed Reza Abbaszadeh. The office building serves as the corporate headquarters of the Company. The Company has occupied the property since June 2005. In the prior examination report, it was recommended that the Company file for a certificate of exemption in accordance with CIC Section 1101. This agreement was submitted to the CDI and was approved on October 4, 2010. The Company is now in compliance.

#### CORPORATE RECORDS

The Company's board actions regarding the authorization and approval of excess funds investments did not comply with the requirements of California Insurance Code (CIC) Section 1201. Although board minutes document the general authorization or approval of its investments, specific references to amounts, facts and the values of the securities were not included as required under CIC Section 1201.

It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1201. This item was commented on in the prior examination report.



## TERRITORY AND PLAN OF OPERATION

As of December 31, 2009 the Company was licensed to transact disability insurance in the States of Arizona, California, Colorado, Connecticut, Florida, Kentucky, Nevada, New Jersey, New York, Pennsylvania, Texas, and Virginia. The Company currently writes dental indemnity insurance only. In 2009, the Company wrote direct premiums of \$78,800,205 of which 93.5% was written in California, 2.5% in Arizona, 0.3% in Colorado, 3.6% in Nevada, .01% in New Jersey, .03% in Pennsylvania, .02% in Texas, and .11% in Virginia.

The Company's main line of business is commercial Preferred Provider Organization (PPO) with premiums of \$66,967,069 in 2009. The Company also participates in the dental portion of the State of California's Healthy Families Program (HFP). HFP provides subsidized health, dental, and vision care for children whose families meet certain federal poverty level thresholds. The Company also writes a small amount of individual dental coverage. In 2009, the premiums from HFP and the individual plans totaled \$11,604,958 and \$228,178, respectively. In addition to writing dental indemnity policies, the Company also performs administrative services for self-insured dental plans on a fee basis. In 2009, total administrative fee revenue was \$1,281,542.

The Company markets its product through approximately 1,282 independent brokers and nine general agents.

The Company stated that it establishes premium rates based on its own experience modified by competition factors. All group and individual applications for insurance are underwritten by the Company's underwriting staff. In addition to its home office, the Company has three small offices, one in California, one in Arizona, and one in Virginia.

## REINSURANCE

### Assumed

The Company had no reinsurance assumed business.

### Ceded

The Company had no reinsurance ceded business.

## ACCOUNTS AND RECORDS

### Information Systems Controls

A review was made of the Company's general controls over its information systems. As a result of the review, some control deficiencies were noted in areas such as physical security, security and access controls, business continuity planning, and IT governance. The control deficiencies noted were presented to the Company along with recommendations to strengthen its controls in these areas. The Company should evaluate the recommendations and make appropriate changes to strengthen its information systems controls.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Statement of Revenue and Expenses and Surplus Account for the Year Ended  
December 31, 2009

Reconciliation of Capital and Surplus from December 31, 2004  
through December 31, 2009

Statement of Financial Condition  
as of December 31, 2009

	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
<u>Assets</u>				
Bonds	\$29,257,548	\$	\$29,257,548	(1)
Common stocks	2,858,971		2,858,971	(1)
Mortgage loans on real estate:				
First liens	1,186,085		1,186,085	
Cash and short-term investments	6,772,812		6,772,812	(1)
Investment income due and accrued	441,453		441,453	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	1,374,807		1,374,807	
Net deferred tax asset	1,219,000	916,000	303,000	
Electronic data processing equipment and software	38,296	38,296		
Furniture and equipment	779,562	779,562		
Receivable from parent, subsidiaries and affiliates	611		611	
Aggregate write-ins for other than invested assets	<u>600,874</u>	<u>565,869</u>	<u>35,005</u>	
Total assets	<u>\$44,530,019</u>	<u>\$ 2,299,727</u>	<u>\$42,230,292</u>	
<u>Liabilities, Capital and Surplus</u>				
Claims unpaid			\$ 5,874,000	(2)
Unpaid claims adjustment expenses			147,000	(2)
Aggregate health policy reserves			100,713	
Premiums received in advance			1,973,918	
General expenses due or accrued			3,149,358	
Amounts due to parent, subsidiaries and affiliates			304,967	
Aggregate write-ins for liabilities			<u>10,247</u>	
Total liabilities			11,560,203	
Common capital stock		\$ 1,725,000		
Gross paid-in and contributed surplus		2,600,731		
Unassigned funds (surplus)		<u>26,344,359</u>		
Capital and surplus			<u>30,670,090</u>	
Total liabilities, capital and surplus			<u>\$42,230,293</u>	

Statement of Revenue and Expenses and Capital and Surplus Account  
for the Year Ended December 31, 2009

Statement of Revenue and Expenses

Net premium income		\$78,800,205
Aggregate write-in for other non-health revenues		<u>1,856,665</u>
Total		80,656,870
Deductions:		
Other professional services	\$54,498,482	
Claims adjustment expenses	1,200,230	
General administrative expenses	19,021,333	
Increase in reserves for life and accident and health contracts	<u>(6,626)</u>	
Total		<u>74,713,419</u>
Net underwriting gain		5,943,451
Net investment income earned		1,218,731
Net realized capital losses		(140,924)
Federal income taxes incurred		<u>2,455,000</u>
Net income		<u>\$ 4,566,258</u>

Capital and Surplus Account

Capital and surplus, December 31, 2008		\$25,717,797
Net income	\$ 4,566,258	
Change in net unrealized gains	681,875	
Change in net deferred income tax	45,000	
Change in nonadmitted assets	<u>(340,840)</u>	
Net change in capital and surplus for the year		<u>4,952,293</u>
Capital and surplus, December 31, 2009		<u>\$30,670,090</u>

Reconciliation of Capital and Surplus  
from December 31, 2004 through December 31, 2009

Capital and surplus, December 31, 2004, per Examination	\$11,990,982
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	Gain in Surplus	Loss in Surplus	
Net income	\$16,688,529	\$	
Change in net unrealized gains	165,969		
Change in net deferred income tax	1,012,000		
Change in nonadmitted assets	812,610		
Total gains and losses	\$18,679,108	\$ 0	
Net increase in capital and surplus			18,679,108
Capital and surplus, December 31, 2009, per Examination			\$30,670,090

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Bonds, Cash and Short-term Investments

The Company does not have formal written procedures for identifying long outstanding unpaid cash items and escheating such items to the State in accordance with the Unclaimed Property Laws. It is recommended that the Company adopt formal written procedures to identify and report such items in accordance with the unclaimed property laws of applicable states.

The Company records its securities on their settlement date and not their trade date. It is recommended that the Company record its securities on their trade date, not the settlement date, in accordance with Statements of Statutory Accounting Principles (SSAP) No. 26, paragraph 4, for bonds; SSAP No. 30, paragraph 5, for common stocks; and SSAP No. 43, paragraph 6, for loan-backed and structured securities.

The filing exempt designations assigned to some securities at the examination date were higher than the ratings assigned to those securities by a nationally recognized securities rating organization. It is recommended that the Company establish procedures to ensure its investment securities are reported in accordance with the Securities Valuation Office (SVO) filing guidelines as stated in the Purposes and Procedures Manual of the NAIC SVO.

### (2) Claims Unpaid and Unpaid Claims Adjustment Expenses

A consulting actuary, retained by the California Department of Insurance, reviewed the claims unpaid and unpaid claims adjustment expenses reserves as of December 31, 2009 and concluded that the reserves were adequate.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Corporate Records (Page 6): It is recommended that the Company implement procedures to ensure future compliance with California Insurance Code (CIC) Section 1201. This item was commented on in the prior examination report.

Accounts and Records – Information Systems Controls (Page 8): It is recommended that the Company evaluate the recommendations from the Information Systems review and make appropriate changes to strengthen its information systems controls.

Comments on Financial Statement Items - Bonds (Page 12): It is recommended that the Company adopt formal written procedures to identify and report such items in accordance with the unclaimed property laws of applicable states.

It is recommended that the Company record its securities on their trade date, not the settlement date, in accordance with Statements of Statutory Accounting Principles (SSAP) No. 26, paragraph 4, for bonds; SSAP No. 30, paragraph 5, for common stocks; and SSAP No. 43, paragraph 6, for loan-backed and structured securities.

It is recommended that the Company establish procedures to ensure its investment securities are reported in accordance with the Securities Valuation Office (SVO) filing guidelines as stated in the Purposes and Procedures Manual of the National Association of Insurance Commissioners SVO.

### Previous Report of Examination

Management and Control - Affiliated Management Agreement (Page 4): It was recommended that the Company file for a certificate of exemption in accordance with California Insurance Code (CIC) Section 1101. The Company is now in compliance.



Management and Control - Conflict of Interest (Page 6): It was recommended that the Company solicit conflict of interest statements from its directors, officers, and key employees on an annual basis. The Company is now in compliance.

Corporate Records (Page 6): It was recommended that the Company implement procedures to ensure future compliance with CIC Sections 1200 and 1201. It was recommended that the Board authorize and approve mortgage loans in accordance with CIC Section 1200. The Company is now in compliance with CIC Section 1200, but not in compliance with CIC Section 1201.

Comments on Financial Statement Items - Bonds (Page 13): It was recommended that the Company file its Custodial Agreement pursuant to CIC Section 1104.9(c). The Company is now in compliance.

Comments on Financial Statement Items – Mortgage Loans (Page 13): It was recommended that the Company take actions to be in compliance with CIC Section 1197. The Company is now in compliance.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and assistance extended by the officers and employees of the Company during the course of this examination.

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Kyo Chu, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California